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Surveys of Consumer Attitudes

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OPTIMISM REIGNS

** In the June 1983 survey, the Index of Consumer Sentiment was 92.2, just below the 93.3 recorded in May, and substantially above the 70.4 recorded in January 1983, and the 65.7 recorded in June 1982. The small and insignificant decline was concentrated among lower income families. Among families with incomes of $25,000 or more, the Index rose to 102.5 in June 1983 from 101.0 in May, and 78.8 in January 1983.

** More families in the June 1983 survey reported hearing news of favorable developments in the economy than in any prior survey. Reports of increases in employment dominated the favorable developments. Among all families, 64 percent reported that overall business conditions had improved during the past year, a new record level.

** As a result of the federal tax cut, a somewhat smaller proportion of families expected increased take-home pay in 1983 (22 percent) than in 1982 (28 percent). The median expected additional take-home pay was $25 per month in 1983, unchanged from the 1982 figure. Although overall spending intentions did not significantly change during the past year, spending plans have shifted towards major new purchases and away from meeting current needs and expenses.

** More families than ever before rated buying conditions for houses favorably in the June 1983 survey (66 percent). Favorable attitudes towards buying conditions for cars were held by 63 percent of all families, just below the all-time record of 66 percent recorded in April and May 1983. In each case, lower interest rates and lower prices led to these favorable attitudes.

** For the first time in more than a year, a higher proportion of respondents in the June 1983 survey expected increases rather than declines in interest rates (29 versus 27 percent). Just three months earlier, in March 1983, more than twice as many families expected declines rather than increases in interest rates (41 versus 19 percent). Given the heightened dependence of buying attitudes on interest rates, actual increases in interest rates are likely to cause serious and immediate reversals in favorable buying attitudes.

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Consumers remained very optimistic in the June 1983 survey about the outlook for their own financial sitution as well as for the economy in general. Following the rapid rise of more than 20 Index-points since January, the one month decline of just 1 Index-point does not represent a change in the underlying upward momentum. Even if the Index did not rise much above its current level, consumer spending in late 1983 and early 1984 can be expected current level, consumer spending in late 1983 and early 1984 can be expected to benefit from the very favorable attitudes already recorded.

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Record Awareness of Improved Business Conditions

Favorable developments in economic conditions continue to dominate the news heard and recalled by consumers in the June 1983 survey. The June 1983 survey marked the fourth consecutive month which set a new record level of favorable perceptions of recent economic developments. More than twice as many favorable as unfavorable developments were reported in June 1983 (83 versus 31 percent), nearly the reverse of the negative balance recorded one year earlier (24 versus 87 percent). The improvement recorded since the start of 1983 has been due to favorable changes in employment/unemployment trends. Among all families, 31 percent mentioned instances where employment had increased, up from 28 percent in May and just 12 percent in January. In contrast, references to increases in unemployment fell to 21 percent in June 1983 from 43 percent at the start of the year. Among all families in the June 1983 survey, 64 percent reported that overall business conditions had improved during the past year, a new record level, up from just 16 percent in January.

Consumers remain very optimistic about the outlook for the economy during the year ahead. Among all families in the June 1983 survey, 49 percent expected business conditions to improve, down from the all-time peak of 55 percent recorded in May, but well above the 37 percent recorded one year earlier. Only 7 percent expected business conditions to worsen in the next year, just above the 6 percent recorded in May, and well below the 26 percent recorded a year earlier. The expected decline in unemployment has been the dominant factor associated with the improvement during the past year. Unemployment was expected to decline by 37 percent of all respondents in the June 1983 survey, down from 42 percent in May, but more than twice the 16 percent recorded one year earlier. The proportion of respondents that expected increases in unemployment was 15 percent in June 1983, up from 13 in May, but less than a third of the 48 percent recorded in June 1982.

Personal Finances Improve

For the third consecutive month, families in the June 1983 survey more frequently reported that their personal financial situation had improved rather than worsened during the past year (38 versus 28 percent). This represents the most favorable balance of opinion in more than five years. The

recent improvement has been due to more frequent reports of income increases, which rose to 32 percent in June 1983, up from 29 percent in May and 27 percent in June 1982. Although reports of income declines fell to 19 percent in June from a high of 26 percent three months earlier, it remains above the 18 percent recorded in June 1982.

Consumers remained very optimistic about the outlook for their personal financial situation during the year ahead: four times as many families expected improvement rather than a worsening financial situation. Compared with a year earlier, in the June 1983 survey fewer families expected their incomes to decline (17 to 13 percent), and more frequently expected their family incomes to remain unchanged during the year ahead (21 to 28 percent).

1983 Tax Cut

In the June 1983 survey, respondents were asked whether they expected their monthly take-home income to change as a result of the tax legislation, repeating questions asked in earlier surveys (see Table A). Fewer respondents reported that they expected their incomes to increase in the June 1983 survey (22 percent) than in 1982 (28 percent) or in 1981 (46 percent). Among those families that expected increases in their take-home pay, the median monthly expected increase was $25 in June 1983, unchanged from the 1982 figure, and just half the amount expected in 1981.

When asked whether they plan to save or spend the increase in after-tax income, families more frequently reported spending plans in June 1983 (46 percent), than in 1982 (43 percent) or 1981 (25 percent). In contrast to 1982 when almost the entire increase in spending plans was related to meeting current needs and expenses, the increase in spending plans recorded in 1983 was concentrated in plans to make major new purchases such as household durables, vehicles, and home additions and repairs. Nonetheless, two-thirds of all spending plans remain relegated to meeting current needs and expenses. Compared with a year earlier, respondents somewhat more frequently expect to save the additional after-tax income (28, up from 25 percent), while somewhat fewer respondents reported that they expected to use the added income to repay debt (19, down from 23 percent).

Favorable Buying Attitudes

In the June 1983 survey, two-thirds of all American families rated buying conditions for houses favorably, the highest proportion ever recorded. The pace as well as the extent of improvement recorded during the past year has set new records. The proportion of families giving favorable evaluations of buying conditions for houses rose from the all-time low of 15 percent in July 1982 to the all-time high of 66 percent in June 1983. The major reasons given by consumers for this abrupt turnaround in house buying attitudes have been lower mortgage rates and lower housing prices. During the past year, complaints of high mortgage rates fell from 75 to 23 percent, while references to the availability of lower mortgage rates rose from 7 to 61 percent. Mentions of the availability of lower housing prices rose to 20 percent in June 1983 from 15 percent one year earlier, while references to high housing prices fell to 13 from 27 percent.

The last cyclical peak in favorable attitudes toward buying conditions for houses was recorded in May 1977, when 63 percent of all families rated house buying conditions favorably. At that time, the major reason given for favorable house buying attitudes involved buy-in-advance price rationales, reported by 47 percent of all families in the May 1977 survey. In sharp contrast, in the June 1983 survey, just 8 percent of all families mentioned buy-in-advance price rationales. In 1977, more families referred to high rather than low housing prices, while at the 1983 peak, low rather than high prices were more frequently mentioned. As shown in the table below, just as favorable house buying attitudes in 1977 were dominated by buy-in-advance price rationales, favorable house buying attitudes in 1983 were dominated by the appeal of lower mortgage rates.

The proportion of American families holding favorable attitudes towards buying conditions for cars was 63 percent in June 1983, just below the all-time record of 66 percent recorded in both April and May 1983. The primary reason for favorable car buying attitudes has been the availability of lower interest rates, mentioned by 40 percent of all respondents for the third consecutive month, while complaints of high interest rates fell to just 6 percent in the June 1983 survey. Compared with a year earlier, mentions of lower prices and rebates fell from 32 to 23 percent, but references to high car prices fell by a greater amount, from 33 to 20 percent, providing a small

	Houses		Cars	
	May 1977	June 1983	March 1978	June 1983
Proportion Holding Favorable Attitudes	63%	66%	55%	63%
Selected Reasons:				
Low prices	4	20	12	23
High prices	22	13	20	20
Low interest	12	61	2	40
High interest	10	23	2	6
Buy-in-advance	47	8	34	11

net positive impact. Following the extensive rise during recent months in favorable attitudes toward market conditions for cars, the June 1983 survey recorded a significant increase in the formation of specific car purchase intentions. Among all families, 22 percent said they intended to purchase a car during the upcoming year in the June 1983 survey, the highest level recorded since February 1977. The expected timing of these intended purchases is concentrated in the fourth quarter of 1983.

Interest Rate
Expectations Edge Upward

For the first time in more than a year, the June 1983 survey recorded a higher proportion of respondents that expected increases rather than declines in interest rates. Declines in interest rates during the year ahead were expected by 27 percent of all families in June 1983, down from 31 percent one month earlier, and 41 percent three months earlier. Increases in interest rates were expected by 29 percent in June 1983, up from 20 percent in May. Despite these recent declines, interest rate expectations remain at relatively favorable levels.

The heightened dependence of buying attitudes on interest rates will continue to shape subsequent developments in buying attitudes. Further declines in interest rates will continue to support favorable buying attitudes, while increases in interest rates are likely to cause serious and

immediate reversals in favorable buying attitudes. Even if interest rates were to stabilize at current levels, their favorable impact on buying attitudes would gradually recede over time as people became accustomed to the prevailing rates.

TABLE A

EXPECTED CHANGE IN MONTHLY TAKE-HOME PAY
IF PERSONAL INCOME TAX REDUCTIONS ARE ADOPTED

Expect Take-home Pay to...	1981	1982	1983
Increase	46%	28%	22%
Stay the same	40	55	57
Decrease	2	5	6
Does not pay taxes	6	7	11
Don't know	2	2	3
Not ascertained	4	3	1
Total	100%	100%	100%
Cases	1224	2770	714
Expect Increase in Monthly Take-home Pay			
Median	$50	$24	$25
Planned Use of Increase in Take-home Pay			
Spend	25%	43%	46%
New purchases	8	8	15
Current expenses	17	35	31
Repay debt	21	23	19
Save, invest	41	25	28
Both spend and save	4	4	6
Don't know, not ascertained	9	5	1
Total	100%	100%	100%
Amount of Difference that Added Income Makes			
Considerable difference	NA	5%	9%
Small difference		39	44
Practically none		49	42
Don't know, not ascertained		7	5
Total		100%	100%

The questions were: April-May 1981: "If the personal income tax reductions were actually passed, would you expect your monthly take-home pay to increase, stay the same, or what?" IF INCREASE: "About how much more money would you expect to take home each month?" "What do you think you would do with this money--spend it, save it, invest it, repay debts, use it for a down-payment on something, or what?"

July-October 1982, June 1983: "As a result of the [YEAR] federal tax cut, would you expect your monthly take-home pay to increase, stay the same, or what?" IF INCREASE: "About how much money would you expect to take home each month?" "What do you think you would do with this money--spend it, save it, invest it, repay debts, use it for a down-payment on something, or what?" "Does the amount of extra income you get from the tax cut make a considerable difference to you, or only a small difference, or practically none?"